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Advertising Age Thursday

Crain's Magazine of the Creative Process

Special Report

TRAVEL & TOURISM:
On the road to recovery

Stuart Hagmann

Making commercials that touch the heart

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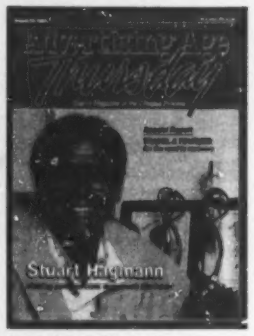
Thursday

Hag-iography

When Stuart Hagmann was a schoolboy, he spent much of his time putting on marionette shows in schools around his hometown in Wisconsin. While more than 30 years have passed since those long-ago days in Sturgeon Bay, the principal of Hagmann, Impastato, Stephens & Kerns, Studio City, Cal., is still pulling strings as a producer of tv commercials that are among the best in the business. *See Page 5.*



Cover photo by Glen LaFerman

Gag me

The campaign that's put a wine-cooler brand among the hottest sellers in one of the country's fastest-growing categories is one nobody connected with can talk about. *See Page 46.*

Smokin'

Peter Heineman has perfected calculated casualness. Everything about him is crafted to convey an image of having never worked a day in his life—which was true until nine years ago. Mr. Heineman, 33, owns his own $4 million business, and he can afford enough self-possession to prevent anyone from guessing how he makes his living. *See Page 49.*

Special Report—Travel & Tourism

An improved economy and fare and rate wars have consumers on the move and the travel industry looking up. *Starting on Page 15.*

Lever Bros.' Hero laundry detergent failed to stir the hearts—or glands—of consumers as much as it moved the addle-brained women in its tv spots.

Readers remember ad gaffes from past

Confidence is a marvelous attribute for marketing organizations, but sometimes one must wonder why anyone out there in marketing land has any of it left. With the new Coke-old Coke-Coke Classic fandango in mind, Advertising Age Thursday *asked readers for other examples of marketing missteps.*

The collection of marketing disasters, submitted to our Edsel, Etc. contest in July, proved not only how easy it is to usher in an utter failure, but how common failure can be.

Below, representing a richness of marketing embarrassments, are some of the products that will never die, for they will always live on in our memories.

"Does anyone else remember **Yucca Dew shampoo?** A wonderful-smelling mixture which did miracles for my teen-age hair, but obviously I was the only customer daring enough to put a concoction called 'Yucca' on my head." Melinda Carson, advertising manager, Coalfield Progress, Norton, Va.

"Did market researchers and audio equipment manufacturers forget that people have only two ears? They underestimated the public's reluctance to completely rearrange living room furniture in order to place four large speakers in precise, equidistant locations so listeners could sit squarely in the center enjoying the **four-channel effect.**" Bob Blancato, public relations manager, Reese, Thomases & Ellick, Wilmington, Del.

"Here's a Titanic memory. Take America's most popular children's book, about the world's greatest candy maker. Turn it into a movie starring Gene Wilder. Give it a score, including a hit tune. . .and then launch a product made of ersatz chocolate: **Willie Wonkas.** Too bad the client didn't make a product worthy of the name." Name withheld on request.

"Circa 1970, Coca-Cola bottlers tested a fruit-flavored soft drink named **Sugarbush.** It came in several flavors and was rather a strange concoction, which included yeast. I was working in a food store in Milwaukee as a teen ager the summer the drink was introduced and we had several dozen cases of Sugarbush in the basement. Bottled under pressure, the yeast fermented when exposed to heat. I earned several day's pay cleaning up the result, while ducking explosions." **Phil Bolda**, Colorado College.

"I nominate **Hero** detergent. It had to be the advertising, along with the name, that killed Hero. The tv spots depicted a huge box of the product, which had a booming macho male voice. Clustered around the base of the box was a horde of writhing, glassy-eyed, moaning women, their arms raised and waving in supplication to 'their Hero.' Even MCPs would have been repelled at this female adoration of a mere box of soap." Art Chenoweth, Turner Group, Portland, Ore.

Historical note: *Lever Bros. tested Hero in Oregon and Oklahoma in 1969.*

In Doyle Dane Bernbach's commercial, the monumental soap box bearing the imposing likeness of a stone-carved Greek god, much more than 10 ft. tall, has attracted a crowd of women, all of whom gaze up in awe as voiceover says: "I, Hero, am here. I am the strong detergent with the yet unheard-of power. . .I clean with strength. . .Your hands will feel the soft. Friends, housewives, countrywomen, bring me your wash."

By this time, the women can barely contain themselves. They begin jumping around and saying ". . .I wanna Hero kind of clean. I wanna strong yet softer clean. I wanna see it. I wanna feel it. Want my eyes to see the clean. Want my hands to feel the soft. . ." (AA, Sept. 8, '69).

"The best mixed-message advertising disaster was General Foods' **Whip 'n Chill.** Whip 'n Sizzle would have been a different product with a less confusing message." Robert Rosenberg, account service, Brady Co., Menomonee Falls, Wis.

"I have a vivid memory of spending a Sunday afternoon in the early post-war era touring the revolutionary **Lustron House.** It was constructed of light yellow and green enameled panels and looked something like a scaled-down '50s gas station. It never needed painting, couldn't get termites and had utterly no aesthetic quality. It would have been a great home for Charlie the Tuna, but humans rejected it." Bill Lawrence, Fuji

(Continued on Page 43)

Presstime

Falwell for S. Africa

WASHINGTON—The Rev. Jerry Falwell's Moral Majority on Aug. 23 breaks half-page ads in *USA Today* and the *Washington Post*, paving the way for upcoming tv specials urging continued U.S. investment in South Africa. The conservative religious and political organization, based in Lynchburg, Va., plans two specials to be aired on Christian cable tv networks. Blue Ridge Advertising, Lynchburg, handles.

BBDO sells agency

NEW YORK—BBDO International has sold majority ownership of its South African agency, BBDO Intl. Holdings, to five senior executives at the shop. The agency is the largest in South Africa. The new owners, all equal partners, are Derrick Dissel, Ian Shepherd, Alan Tiley, Grahame Tomes and Pierre Venter. BBDO sold its entire 80% interest in the agency.

Sears card gets $20M in ads

ATLANTA—Sears Financial Network, New York, on Aug. 21 kicked off a $20 million ad campaign for its new Discover credit/financial services card (AA, July 16, '84, *et seq.*). Sears blanketed most of Georgia with two-page b&w newspaper ads and 30 and 60-second radio and tv spots supporting its first test of the card. Consumer ads carry the over-all theme "Discover Card puts your money in a whole new light." J. Walter Thompson USA, Chicago, handles.

No new agency: Hampel

NEW YORK—Alvin Hampel, former exec vp-director of creative services at D'Arcy MacManus Masius Worldwide, firmly denies widespread reports that he is close to starting a new ad agency with Joseph Hannan, senior vp-account director at Benton & Bowles. Mr. Hannan heads the Texaco account, which is looking for a new agency as a result of the DMM-B&B merger and a conflict with DMM's Amoco account.

Chi. dealers review

CHICAGO—Chicagoland Ford Dealer Advertising Fund will open the review of its estimated $5 million account to "three or four" more agencies. The group last week heard presentations from incumbent J. Walter Thompson USA, Detroit, and Chicago shops Bentley, Barnes & Lynn; Chase/-Ehrenberg & Rosene; Cramer/Krasselt, and Jack Levy & Associates.

Newark dealers decide

NEWARK, N.J.—Newark District Ford Dealers Assn. has assigned its $4 million-plus account to Hill, Holliday, Connors, Cosmopulos from Rosenfeld, Sirowitz & Lawson, both New York. The competition also had included BBF Communications; Penchina, Selkowitz, and J. Walter Thompson USA (AA, Aug. 5).

'Old' Pepsi vs. New Coke

LONDON—Pepsi-Cola International this week held a series of lighthearted press conferences

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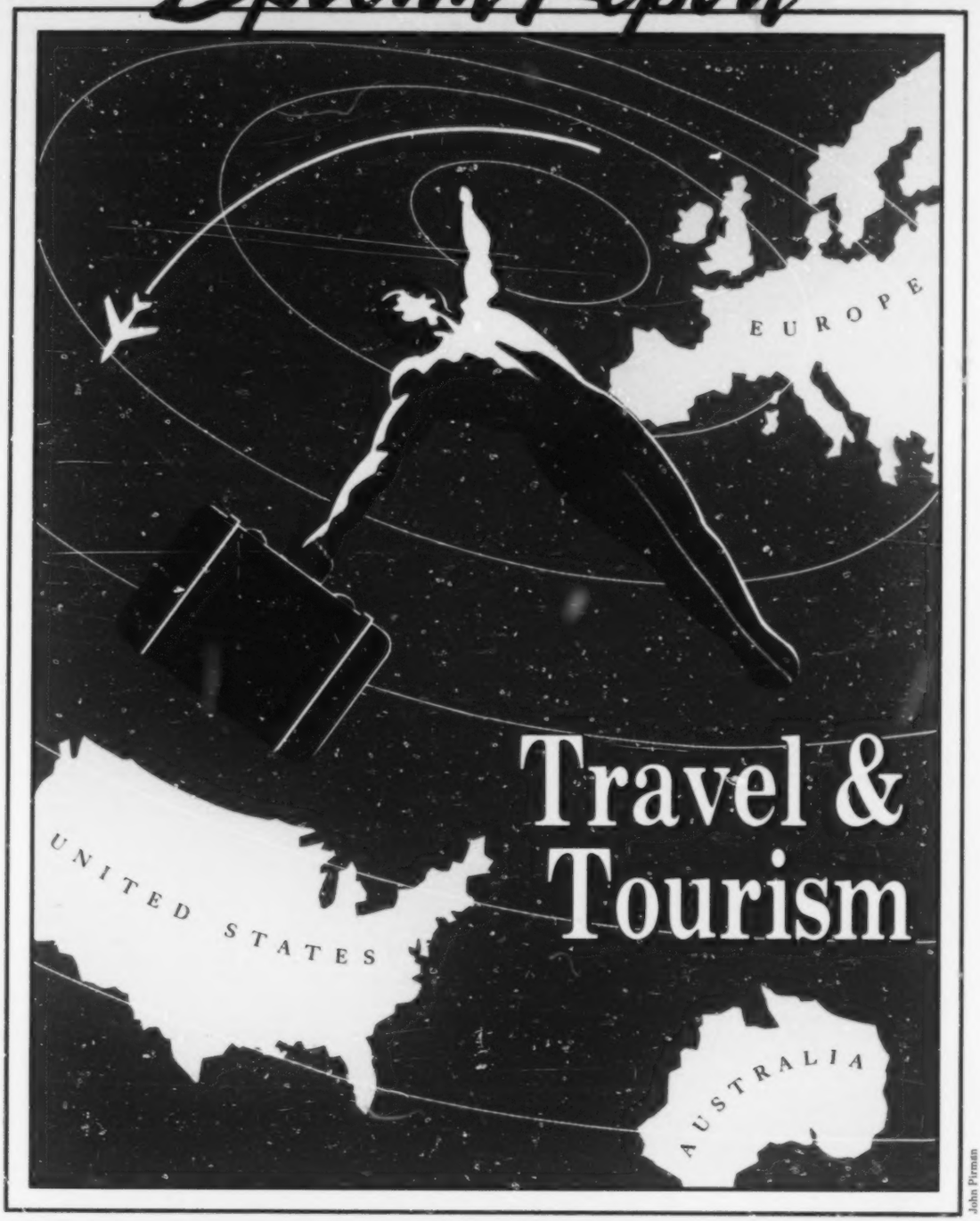
Special Report



John Pirman

Industry takes road to recovery in 1985

By Joanne Y. Cleaver

Ah, vacation. Which will it be—the beach or the mountains?

That dilemma is complicated this year by a full itinerary of affordable options; 1985 is shaping up to be a traveler's paradise.

Europe has been attracting thousands of U.S. tourists, buoyed by the strong dollar and favorable exchange rates, but it is not the only bargain. Domestically, fare and rate wars are raging in the airline, hotel and cruise industries. Combine those short-term skirmishes with a long-term trend of increased market segmentation, and the total package is one of healthy market growth for the travel industry and a lot of fun for consumers.

Over-all, last year was disappointing, according to the 1984 National Travel Survey, a study of travel trends by Washington-based U.S. Travel Data Center. In 1984, Americans took 528 million trips—2% fewer than in 1983, deflating the industry's expectations for a boom year.

As the economy recovered, consumers let out their pentup demand for such durable goods as major appliances and houses. In 1984, industry observers expected consumers to satisfy their appetites for the basics and turn to discretionary items such as vacations. But it wasn't until 1985 that the growth began.

"It's about time," says Douglas Frechtling, director of the Travel Data Center. "1985 looks like a full recovery year for travel. We see an upturn with a projected 5% increase in trips, and vacation trips will exceed that," he says. "It should continue into 1986, as far as we can see."

> **"We see an upturn with a projected 5% increase in trips."**
>
> *—Douglas Frechtling Travel Data Center*

Throughout 1984 and into this year, foreign destinations have been swamped by unprecedented numbers of American tourists, unhampered even by such dramatic and dangerous situations as this summer's terrorist hijackings, according to industry observers.

Up to 6% of all travel in the past 18 months has been abroad, Mr. Frechtling says. In 1984, an estimated 5.7 million Americans visited Europe, with a projected 12% increase for 1985, according to the European Travel Commission, New York.

While some industry insiders say the overseas travel is likely to continue, citing the perennial popularity of Europe, others say the wave of U.S. tourists overseas already may have crested.

"If the dollar softens up in advance of next year and stays weaker, it will affect next year [in terms of advance travel plans and reservations]," says Alan Fredericks, associate editor and publisher of *Travel Weekly*. Others say many first time and repeat European travelers already have made their trips, and additional travel from that group is unlikely in the near future.

If the tides turn, keeping tourists closer to home, the domestic tourist business will benefit. Last year, foreign attractions si-

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Joanne Y. Cleaver is a free lance writer and frequent contributor to Special Report.

Recovery

(Continued from Page 15)

phoned off demand for domestic destinations, industry observers say.

In 1985, according to early trends tallied by the industry, domestic vacation travel has rebounded.

Nearly 85% of all domestic vacation travel is by automobile, truck or recreational vehicle, reports the American Automobile Assn., Falls Church, Va. About 88 million Americans are expected to take car trips this year, up 5% from last year, says Richard White, AAA public information specialist.

Those vacations are not necessarily lengthy—half of the trips are planned to be fewer than 500 miles—but 4% more people than in 1984 are planning to stay at hotels and motels rather than with friends and relatives. The duration of the planned auto vacation trip, 6.1 days, is unchanged from last year, Mr. White says.

The AAA's most recent survey, completed in June, reported that in 1985, more people are budgeting ahead for their vacations. That kind of consumer optimism, combined with other trends, such as the surge in new car sales, indicates that 1985 should be a strong year for the category.

Air traffic also is taking off this year, according to the Air Transport Assn., Washington. The first six months of 1985 revealed a 12.6% increase in revenues per passenger mile, compared with the same period in 1984, for a total of 148.7 billion passenger miles logged. But last year's industry revenue total of $304.5 billion is not likely to be repeated this year because of lagging profits.

It's a classic case of higher volume but lower profits per passenger, says an airline industry insider, who would not speak for attribution. The ATA is projecting that total revenues per-passenger-mile will increase 7% over 1984 by yearend, with 80% of that travel within the U.S.

Deregulation-induced fare slashing is key to why airlines aren't making much money per passenger—only 19% of passengers are paying full fare and the average fare discount is 51%, according to the ATA.

To varying degrees, hotels and cruise lines are facing the same situation. Eighteen months ago, most hotels increased their rates at a healthy clip, apparently hoping to cash in on the travel boom anticipated for 1984, says John Rohs, vp-research for Wertheim & Co., New York.

The rate of increase slowed when not as many travelers as expected checked in, he says. As of June, rate increases had slowed to 6% or 7% more than the middle of 1984, and Mr. Rohs expects that by yearend, hotels will be raising their room rates only 4% to 6%.

Because the accelerated rates were out of touch with demand for rooms, hotel occupancy rates declined two to three percentage points during the first half of this year. The projected industrywide occupancy rate for 1985 is 64%, down from the recorded 66% in 1984, Mr. Rohs says.

Although exact figures aren't available, a similar trend has developed in the cruise industry. The number of people taking cruises has increased 10% to 15% in each of the past 10 years, says Ralph Bahna, president of Cunard Line, New York, and chairman of Cruise Lines International Assn. In 1984, 1.6 million passengers set sail aboard the ships of the 26-member association. To meet the swelling demand, many lines have added 1,000-plus passenger ships in the past 18 months.

Consequently, cruise lines have been pressured to develop a variety of offerings to fill their berths. Such options include weekend cruises, longer excursions and a larger variety of ports.

> **"Many companies are ... preselecting airlines and hotels and are looking for more ways to cut costs."**
>
> *—Mike Leeds*
> **Business Travel News**

As airlines, hotels and cruise lines are working to maintain their market shares, they are reshaping their marketing strategies, using rate cutting and special packages. Current financial pressures have fueled the market segmentation that insiders say has been developing for several years.

"We've reached the point where sophisticated marketing is becoming recognized [within the industry]," says Thomas Davidson, president of Davidson-Peterson Associates, a New York-based travel research company. "You're hearing people talk about the need for strategic business plans and the need to be aggressive."

The 1984 level of advertising and marketing spending in the travel industry will double by 1986, Mr. Davidson says.

States of the union—recognizing the benefits of advertising for tourists last year —increased their ad budgets an average 23% for 1985, he says.

In 1985, various locales and destinations will target themselves to select groups of people, rather than simply splashing logos and catchy slogans across newspaper travel sections, Mr. Davidson says.

One method used to promote lesser known or multifaceted destinations is videotapes designed to be viewed either at home or in a travel agent's office, Mr. Davidson says. Canada is one location using this method. "How much Canadian history do you learn about in high school? With the vcr [videocassette recorder] spots, you can really give the story of a destination and you'll have a better informed tourist."

As marketers attempt to carve out niches for themselves, some segments of the travel industry appear to be polarizing. Thus, much of the growth will be in the high end and the budget end of a given industry, industry insiders say. For example, the all-suite hotel is one of two fast-growing concepts in that market. The other is the budget hotel category, with major chains such as Holiday Inns and Marriott Hotels introducing their own lower price, no-frills chains.

Gleefully taking advantage of the rate cutting and competition is the business travel market. That category was the only one to grow, at a 7% rate, in 1984, according to the U.S. Travel Data Center. Currently, the category accounts for 15% of all travel. In 1983, 14% of all travel was for business and convention purposes, according to the Travel Data Center.

More than $80 billion was spent last year by business travelers, and by 1990, that figure is expected to increase to $90 billion, says Mike Leeds, publisher of *Business Travel News*, Manhasset, N.Y.

Business travel benefits as the economy grows: Companies expand sales forces, open new sites and visit increased numbers of clients, customers and suppliers. During the last recession, corporations realized how many miles they could get for their travel dollars.

"Many companies are reducing the options [available to their travelers], preselecting airlines and hotels, and are looking for more ways to cut costs," Mr. Leeds says. Companies are so concerned with containing travel costs that the number of in-house corporate travel managers doubled between 1981 and 1983, and is expected to have doubled again from 1983 to this year, resulting in about 3,000 by yearend.

Although business travelers may not have a choice of destinations, thousands of leisure travelers do. And the most popular direction is south—where 24% of all travelers migrate, according to the U.S. Travel Data Center. The Central Atlantic states and frontier West are nearly tied as the next most popular destinations, with the Eastern Gateway states next, followed by the Far West. The Great Lakes area is sixth choice for incoming visitors, sending out more travelers than it receives.

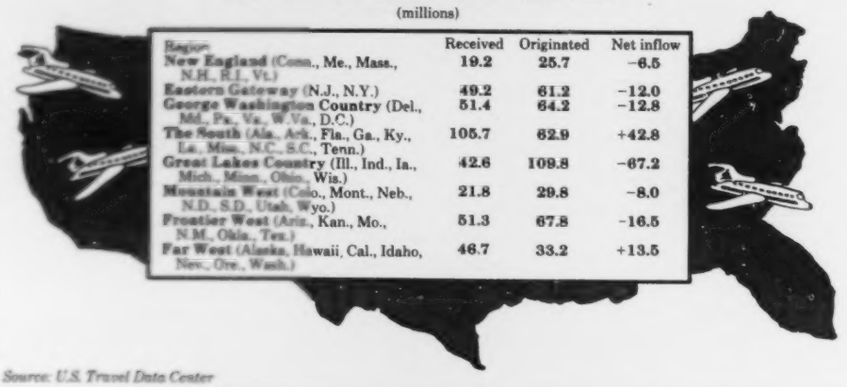
On a smaller scale, the AAA reports that oceans and beaches remain No. 1 destinations for those planning auto trips this year, followed by small towns and rural areas. Last year, cities were the second most popular destination; this year, they've dropped to third place. Mountains, lake areas, state and national parks, and theme parks are preferred destinations in that order.

So, when all is considered, Americans are ready to go on the road and the travel industry is ready to offer them oceans, mountains and much more.

Onward and homeward bound

Number of inter-regional person trips received, originated and destination net flow, 1984

(millions)



Region	Received	Originated	Net inflow
New England (Conn., Me., Mass., N.H., R.I., Vt.)	19.2	25.7	−6.5
Eastern Gateway (N.J., N.Y.)	49.2	61.2	−12.0
George Washington Country (Del., Md., Pa., Va., W.Va., D.C.)	51.4	64.2	−12.8
The South (Ala., Ark., Fla., Ga., Ky., La., Miss., N.C., S.C., Tenn.)	105.7	62.9	+42.8
Great Lakes Country (Ill., Ind., Ia., Mich., Minn., Ohio., Wis.)	42.6	109.8	−67.2
Mountain West (Colo., Mont., Neb., N.D., S.D., Utah, Wyo.)	21.8	29.8	−8.0
Frontier West (Ariz., Kan., Mo., N.M., Okla., Tex.)	51.3	67.8	−16.5
Far West (Alaska, Hawaii, Cal., Idaho, Nev., Ore., Wash.)	46.7	33.2	+13.5

Source: U.S. Travel Data Center

Traveling first class

Upscale demographics of adults vs. travelers

Individual characteristics*	Total population	Total travelers
Completed college	23%	38%
Graduate work	8	15
Total white collar	37	50
Professional/-managerial	12	19
Two or more wage earners	42	48
Own home	67	72
$30,000 or more annual family income	33	48
$40,000 or more annual family income	18	29
Own major credit cards	59	74

*Adjusted for non-response

Source: U.S. Travel Data Center, 1984

Business or pleasure?

Demographics of pleasure vs. business travelers

Individual characteristics*	Pleasure	Business/convention
Male	50%	68%
Female	50	31
Completed college	35	51
Graduate work	13	23
Total white collar	45	68
Professional/-managerial	17	26
Two or more wage earners	45	55
$30,000 or more annual family income	44	64
$40,000 or more annual family income	25	45
Own major credit cards	72	81

*Adjusted for non-response

Source: U.S. Travel Data Center, 1984

Marketing enters airlines' flight plans

By Richard Edel

Deregulation plopped like a giant stone into the calm waters of the regulated air transport industry. The date was Oct. 24, 1978, and the Airline Deregulation Act was to be implemented over a six-year period ending Dec. 31, 1984. As the new order marks its first year in 1985, the ripples of deregulation continue as the industry adjusts from its former state as a public utility to a free market entity.

Like giant fledglings pushed from the nest, the deregulated domestic carriers learned to fly on their own, some soaring, some faltering at first but later getting the hang of it, and others falling victim to poor judgment, bad economics, cutthroat competition, corporate raiders and, occasionally, each other. However, with few exceptions, deregulation marked the opening of a new era of competition, and the preeminence of a new force: Marketing.

"It's marketing 101 for the airlines," says John V. Pincavage, airline analyst for Paine Webber Mitchell Hutchins, New York. And it has been a slow course of study, he says. "After deregulation, it takes people a little while to figure out what they want to do."

CONTINENTAL'S TAKING THE PEOPLE OUT OF PEOPLE EXPRESS.
PEOPLExpress
CONTINENTAL
$69 TO HOUSTON OR DENVER
$65 TO HOUSTON OR DENVER

Continental's changeover to a low-cost operation jolted the airline industry.

Experts say the air travel industry has evolved in three phases since the law was enacted. The first was marked by the new freedom to enter and leave markets, which enabled large and small carriers to restructure their route systems to make the best use of their resources.

In phase one, regional carriers, such as Piedmont Aviation, Southwest Airlines and USAir, benefited enormously by grabbing short and medium-haul routes and establishing hubs and spokes in new markets. Previously, their main business was in point-to-point traffic and feeder service for trunk carriers. Favorable labor contracts and smaller aircraft more suited to frequent, short hops gave these carriers key cost advantages in their expanding markets.

Phase two belonged to the startups, the nonunion carriers such as People Express Airlines and New York Air, among others. One effect of deregulation was an explosion in the number of carriers from 36 in 1978 to more than 100 today. With low costs and low fares, many of these carriers were the first to openly challenge the established trunk carriers in key markets. For example, Newark, N.J.-based People Express, by virtue of rapid expansion and market entry and exit, is butting heads with the majors in several large markets.

In 1984, People Express shifted its expansion strategy from noncompetitive markets to large established ones, including Chicago, Detroit, Los Angeles, Miami, Minneapolis and Cleveland. During the first half of 1984, about 54% of People's traffic came from markets where it competes with Eastern Air Lines, 47% from Pan American World Airways, 44% from Trans World Airlines and 33% from Delta Air Lines, according to Salomon Brothers, New York.

Several key mergers, acquisitions and internally generated expansions also laid the groundwork for future developments. Pan Am acquired National Airlines, Miami, and a heap of debt in 1979, and Texas Air Corp. took over Continental in 1981. Braniff ambitiously expanded domestic and international routes, while trunk carriers began staking out claims on key hub cities.

It was between the first two phases of deregulation that air carriers large and small were jolted by several unusual events: DC-10 aircraft were grounded as a safety precaution in the summer of 1979 after several air disasters; fuel prices doubled between 1978 and 1980; a severe recession gripped the economy between 1980 and 1983, abruptly curtailing demand for air travel, and the Professional Air Traffic Controllers Organization strike in 1981 caused traffic restrictions through early 1983.

As a result of these factors and increased competition, Braniff, in dire need of cash flow, slashed prices to boost traffic. But the cash Braniff generated could not keep it from sinking in red ink when other carriers matched its rates. In May, 1982, Braniff filed for reorganization under Chapter 11 of the Federal Bankruptcy Act, signaling the third, and most critical, phase of deregulation: Restructuring of the major carriers.

Continental was next in bankruptcy court, shutting down for a few days late in 1983, and re-emerging with fewer routes and a nonunion work force. Continental's changeover to a low-cost operation jolted the air transport industry, affecting the over-all marketing and internal business strategies of nearly all carriers.

In addition to flying to Europe, American Airlines hopes to enter the Japanese market.

"The most significant thing that has happened in recent years to the airline industry is deregulation," says John R. Zeeman, exec vp-marketing and planning at United, Elk Grove Village, Ill. "Deregulation led to creation of the People Expresses and Midway Airlines, which in turn led to Continental's bankruptcy and re-emergence as a low-cost carrier. That single event is the second most important factor since deregulation."

The new Continental's low cost structure resulted in a chain reaction of strikes against major carriers as unions fought their efforts to remain competitive by reducing labor costs, Mr. Zeeman says. Particularly hard hit have been pilots, who walked out on United in May and June, returning with a two-tier salary scale that must be renegotiated in five years.

"One of the things you learn quickly is that your marketing is only as good as your cost effectiveness," Mr. Zeeman says. "Give me the cost structure of a People Express and I could be a marketing genius."

For obvious reasons, United is watching closely the tentative $900 million acquisition of Trans World Airlines by Houston-based Texas Air Corp., parent of Continental Airlines and New York Air, he says. Such a merger would create an international system second in passenger traffic only to United Airlines and third in operating revenues behind United and American Airlines.

Continental already is United's second leading competitor, right behind American, Mr. Zeeman says.

Although a spokesman for Texas Air says there are no plans as yet to consolidate Continental, TWA and New York Air, each would benefit considerably from coordination of flight schedules, combined reservation systems, facilities sharing and various economies of scale, according to a Texas Air prospectus.

However, doubts persist about whether the Texas Air bid for

(Continued on Page 23)

Top 16 airlines in 1984

	Passengers (000)		Revenue passenger miles (000)		Total operating revenues ($000)	
1.	United	41,010	1. United	46,037,064	1. United	6,096,846
2.	Eastern	38,081	2. American	36,702,296	2. American	5,087,382
3.	Delta	37,341	3. Eastern	29,359,288	3. Delta	4,496,735
4.	American	34,123	4. Trans World	28,296,956	4. Eastern	4,363,897
5.	Trans World	18,487	5. Pan Am	28,066,826	5. Trans World	3,646,840
6.	USAir	17,047	6. Delta	27,040,102	6. Pan American	3,381,580
7.	Republic	15,177	7. Northwest	19,772,356	7. Northwest	2,463,357
8.	Piedmont	14,274	8. Continental	10,923,395	8. USAir	1,629,696
9.	Pan American	13,913	9. Western	9,396,580	9. Republic	1,547,232
10.	Northwest	13,216	10. Republic	8,509,948	10. Continental	1,196,627
11.	Southwest	12,052	11. USAir	8,190,589	11. Western	1,181,885
12.	People Express	11,775	12. People Express	7,700,945	12. Flying Tiger	1,154,646
13.	Continental	11,115	13. Piedmont	6,227,641	13. Piedmont	1,135,251
14.	Western	10,639	14. Southwest	4,669,435	14. Frontier	568,481
15.	PSA	7,830	15. Frontier	4,464,168	15. People Express	506,141
16.	Frontier	7,048	16. World	3,889,001	16. Southwest	435,075

Richard Edel is a frequent contributor to Special Report and has written extensively on the airline industry.

Airlines

(Continued from Page 19)

TWA will go through. Investor Carl C. Icahn raised his stake in TWA to 45% in early August. While Mr. Icahn has effectively gained control of the carrier, securities analysts speculate that he may be upping the ante, looking for a sweeter bid from Texas Air. The big question is whether Texas Air will try to obstruct Mr. Icahn's takeover, or whether it will be satisfied with selling its TWA shares and options to buy.

In addition to watching developments at TWA, United is waiting for a U.S. Department of Transportation ruling on whether it may proceed with its $750 million purchase of Pan Am's Pacific division. If approved, United would become a major international carrier virtually overnight, acquiring a ready hub in Tokyo and extensive routes throughout the Orient and the South Pacific.

With a powerful feeder system to Seattle, San Francisco, Los Angeles, New York and Honolulu, the Pan Am routes would put United on an equal footing with Northwest Orient Airlines, which controls an estimated 24% of Pacific traffic. The deal also could put a dent in traffic by Japan Air Lines, which has a 40% share of the U.S.-Japan air traffic.

With a chance to unload some of its $1.2 billion debt, Pan Am plans to concentrate on expanding trans-Atlantic, Middle Eastern and South American routes, company sources say.

St. Paul, Minn.-based Northwest Orient, which has the most to lose in the United-Pan Am deal, is leading the opposition. The deal also is opposed by Eastern Airlines and American, which are lined up to enter the U.S.-Japan market if pending negotiations with Japan to increase the number of carriers serving the market are successful.

Pricing is another problem the major carriers are facing as a result of deregulation. Because low-cost carriers compete on the basis of price, the majors are forced into a system of discounts as a means of managing their seating inventory.

In terms of advertising, inventory management means "you start to pick your spots and sell to your inventory," says William H. Dowse, vp-advertising at Miami-based Eastern. "In the summer, you might focus on a market-by-market basis where you have seats to sell."

Frequently, this advertising takes the form of price-destination listings. But the major carriers today are finding ways to justify differences in price through comparative advertising that promotes their superior level of service, Mr. Dowse says.

Pricing also is used to stimulate traffic during weekly and seasonal lulls and to control the number of discounted seats available on flights where demand is high, he says.

An example of pricing used to compete primarily for pleasure travelers over low-cost airlines is American's Ultimate Super Saver fare, which discounts fares up to 70% on 30-day advance purchase, with a 25% cancelation penalty. American's first ads in January for the Ultimate Super Saver generated a 50% to 75% increase in reservations.

Predictably, United offered its own Ultra Saver fares within 24 hours, but the two carriers were aced out a short time later when Continental lowered its 14-day advance purchase fares to the Ultimate Super Saver level, with no restrictions.

Pricing factors work the same way in reverse. Improved projections for air travel in recent months persuaded United in early August to raise fares. United announced a new fare schedule that ties mileage to prices on fares, increasing the average cost of a ticket by more than 4%. United's fare structure also increases SuperCoach fares, eliminates discount fares on seven-day notice and adds a new discount on fares with 14 days' notice. American, TWA, Pan Am and Republic all announced plans to match United's fare structure.

While the increases will dampen passenger traffic, they also will boost yields, the income gained from paying passengers per seat per mile.

Fare increases aside, the overall effect of more competition in the market has been steady, downward pressure on pricing, says Alfred Norling, airline analyst at Kidder, Peabody & Co., New York.

"It's not unusual for an airline to seek a temporary readjustment in pricing. But fares are under downward pressure all of the time. The competition [from deregulation] is intense, and the degree of competition defines the level of fares," he says.

Whether other carriers will match the higher fares or use pricing advantages to stimulate travel on their own lines remains to be seen. Generalities are difficult because each market has its own competitive factors, says Matt Gonring, pr director for Northwest Orient.

"Every market is different. The type of travelers you carry, the kind of aircraft you fly, your frequency, all affect pricing and advertising strategies," he says.

For United and American, an attempt is being made through image advertising to differentiate between price and quality, United's Mr. Zeeman says.

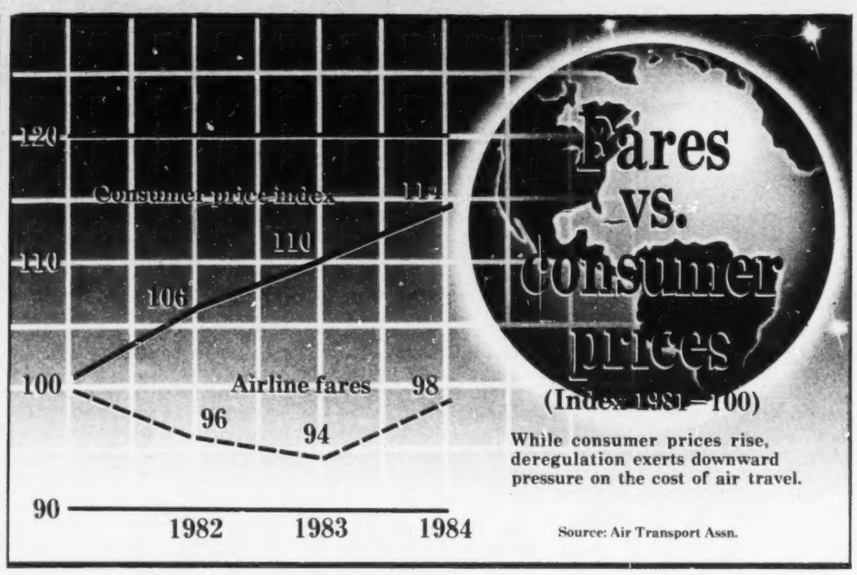
"Ever since deregulation, advertising has been both image-oriented and tactical," agrees Ann Smits, assistant vp-advertising at American Airlines, Dallas. While all airlines engage in tactical advertising of rates and destinations, she says, American also keeps a heavy schedule of image advertising to promote its reputation.

A recent example is its campaign about American's efforts to help restore the Statue of Liberty.

"The goal of that campaign was to affiliate American with a cause for which this country was founded," she says. "But it's not something you can measure in terms of a return."

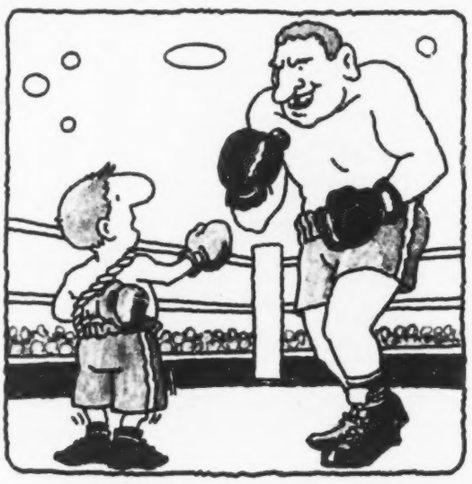
Analysts point to the fact that United and American are able to influence the direction of the industry on routes and fares as an indication that the fourth phase of deregulation may be near. The chief characteristic of this phase is the growing power of a handful of major airlines as a result of internally generated growth, mergers and acquisitions.

On the other hand, perhaps the mega-mergers, such as United-Pan Am or a TWA-Texas Air, won't really affect more than a few players in each market, Paine Webber's Mr. Pincavage says. "You may have four or five dominant carriers in the future, but you've got that now."



While consumer prices rise, deregulation exerts downward pressure on the cost of air travel.

Source: Air Transport Assn.



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San Francisco Chronicle/Examiner	27%
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